FARMERS' NEWSLETTER
Livestock

January 80/L-15

For pork producers the next few months promise more of the same--continuing large slaughter and low prices. But some improvement may begin after midyear.

Last December 1, producers reported 67 million hogs and pigs on U.S. farms, 11 percent more than a year earlier, and the biggest December inventory since 1970.

All of the increase came from 14 percent more market hogs. The number of hogs kept for breeding held about steady.

There were 19 percent more heavy market hogs that will reach market weight during first quarter 1980. Those that will reach market weight in the second quarter were up 7 percent. This means that hog slaughter during January-June may be near record levels.

Producers indicated December-May farrowings will be about 7.2 million head, roughly the same as a year ago. Actual farrowings may differ, of course, due to changing feed costs and hog prices. But if intentions are realized, hog slaughter after midyear would be near the high levels of second-half 1979.

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The next livestock newsletter is scheduled for early March.

Higher Pork Use, Lower Prices Ahead

With the current large output, consumers will be eating the most pork since 1971, 36-38 pounds per person in the first half of 1980 alone.

Moreover, large supplies of competing meats probably will boost total red meat and poultry consumption to record levels, too.

This means consumers will be able to switch to other meats if the price of one increases relative to the price of others. This is likely to prevent any substantial rise in meat prices anytime soon.

Furthermore, incomes aren't expected to keep pace with inflation. Unemployment also is expected to rise, reducing the buying power of many Americans.

High interest rates and heating costs will leave less spending money in the paycheck. So consumers may not be willing to spend as much of their income on pork and other meats as in the past.

The large supply of meats and prospects of a sluggish economy suggest hog prices may range in the upper $30's during the first quarter of this year, and the mid-$30's during the second.

If the economy recovers as anticipated, you could see a July-December average in the low-$40's. And it could get better later in the year if spring farrowings were to taper off.

DECEMBER HOG INVENTORY LARGEST SINCE 1970

	1977	1978	1979	1978 to 1979
	Thousand head			% change
Inventory:	56,539	60,100	66,950	+11
Breeding	8,604	9,584	9,551	0
Market	47,936	50,516	57,399	+14
Weight groups				
Under 60 lbs. . .	19,424	21,154	22,633	+7
60-119 lbs. . . .	12,399	13,036	15,391	+18
120-179 lbs.. . .	9,110	9,378	11,238	+20
180 + lbs.	7,002	6,948	8,137	+17
Pig crop				
Dec.-Feb.	18,532	18,771	21,967	+17
Mar.-May.	24,428	23,681	28,702	+21
Dec.-May	42,960	42,452	50,669	+19
June-Aug.	22,240	22,872	26,936	+18
Sept.-Nov.	20,962	23,118	25,148	+9
June-Nov.	43,202	45,990	52,084	+13

14 States.

Returns near $40 per hundredweight would cover cash expenses for most farrow-to-finish producers but would not cover total costs. The return to labor and management would be small.

Producers' Options Limited

There is very little you can do now to affect prices in 1980 because it's too late to significantly change the number of hogs that will go to market.

Marketings in the first half will come from current inventories. Second-half marketings will come either from sows currently farrowing or from those already bred for farrowing this spring.

But you can vary the weight at which you market hogs to get the best return. First, keep weights down when market prices are declining.

The lowest hog prices are expected in the spring, so by keeping weights down during this period, you can can cut feeding costs and reduce the amount of pork reaching the retail market.

Prices are expected to strengthen in late spring or early summer, so feed hogs to heavier weights at that time.

Longer Term Outlook

Prices have been down for some time: $38 in the third quarter of 1979 and $36 in the fourth--well below the $49 and $50 for the same quarters in 1978.

It might have been even worse except for the decline in beef consumption last year. Per capita beef use dropped to 107 pounds--from 120 pounds in 1978 and the record 129 pounds in 1976.

Expanded pork and poultry production filled the gap created by reduced beef output, so total use of red meats and poultry in 1979, at 244 pounds per person, was up slightly from 1978 levels.

Beef consumption probably will decline another 1 to 3 pounds a person this year, but begin expanding by 1981.

Cattlemen are rebuilding their herds. Last year, they slaughtered about 30 percent fewer cows than in 1978, and they're holding more heifers for beef cow replacements.

This will mean larger calf crops and bigger supplies of beef entering the market beginning in 1981.

Thus, rising cattle production may begin to depress pork prices after 1981. This contrasts with the past few years, when declining beef output helped bolster pork prices.

Supplies of poultry will also rise, although gains over the next 5 years may not be as great as in the previous 5 years.

Growing supplies of competing meats will keep downward pressure on all meat product prices. Unless con-sumption of pork products can be stimu-

lated (for example, by promoting pork at restaurants or fast food outlets) pork production will have to be reduced if returns to hog producers are to increase as fast as production costs.

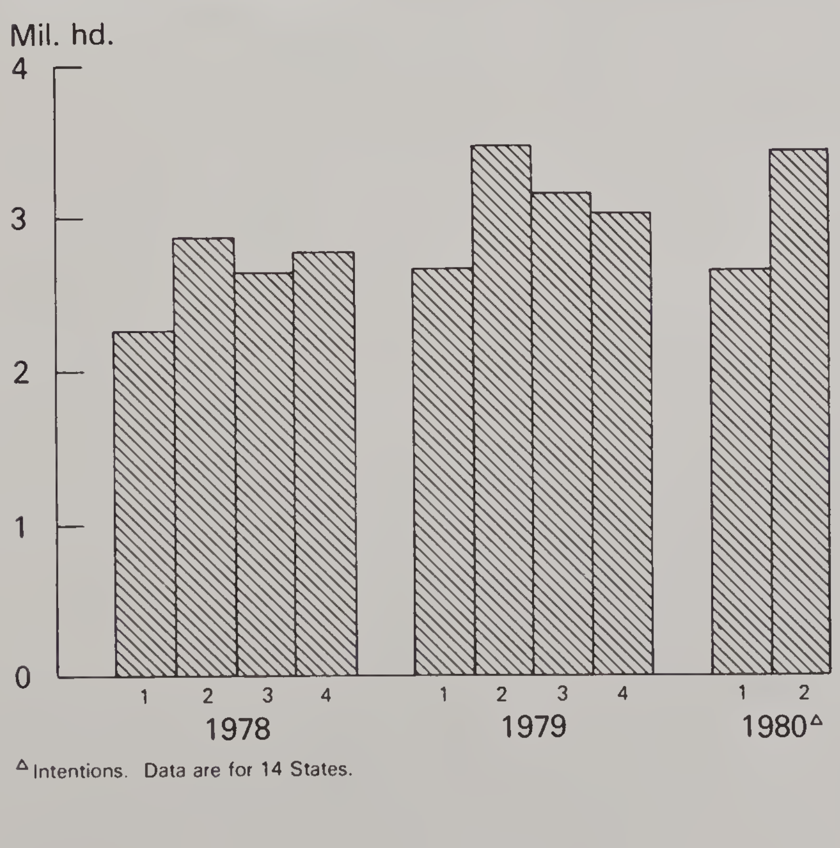
Look for nonfeed costs to rise rapidly. Fuel and electricity costs may increase by more than a third this year. Machinery and building supply costs may climb a tenth. Interest expenses are expected to stay high.

Returns for your hogs in 1980 may just cover cash expenses, but little more as a return to management and labor. Unless hog production falls, this situation could continue for some time.

Since most producers probably will be able to cover cash expenses, there's no reason for them to cut production drastically. But neither is there any incentive to expand at this time.

To return to a profitable situation, pork production probably will have to be reduced from near-record levels of second-half 1979 and first-half 1980. Look at farrowings. Historically, they have averaged about 12.5 million a year.

SOW FARROWINGS TO DECLINE ONLY SLIGHTLY FROM A YEAR AGO



△ Intentions. Data are for 14 States.

Returns to producers have been much better when fewer sows farrowed. But last year, farrowings totaled 14.5 million, and farrowing intentions for the first half of 1980 stand at 7.2 million.

Thus it appears that pork production will have to be reduced before most producers return to a profitable position.

Before You Expand...

If you are considering expansion, first check several key indicators. Watch future farrowing reports to see what the industry as a whole is planning.

Second, keep an eye on sow slaughter. If producers are reducing their breeding inventories, sow slaughter probably will range above year-earlier

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The suspension of grain sales to the Soviet Union probably won't have much of an impact on domestic livestock supplies or prices.

Lower feed grain prices usually encourage expanded livestock production. But after an initial sharp drop, feed grain prices have returned to near pre-suspension levels.

Furthermore, even if prices had remained low, there's little that hog producers can do now to significantly change the volume of pork produced in 1980, since slaughter supplies will come from existing inventories and sows that have already been bred.

Also, hog producers have been operating at a loss since summer. Lower feed costs would have reduced losses, but would not have done much to spark expansion at this time.

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levels.' The number of gilts slaughtered also affects the size of the breeding herd, but separate data are not collected on gilt slaughter.

Farrowing intentions are reported quarterly in the Hogs and Pigs report. The next report is due on March 20. If farrowing intentions for March-May are near or above year-earlier levels, look for hog prices to average in the low $40's or lower in the last part of 1980.

However, if they drop at least 5 percent, that could result in hog prices climbing to the mid-$40's or above in the fourth quarter.

FARMERS LIKE NEWSLETTER/NEWSLINE

Four out of five farmers surveyed in Illinois, Alabama, and Ohio late last year said they like the Farmers' Newsletters and Farmers' Newsline.

The sample survey was conducted by an independent nongovernment organization. A summary of the survey results is available free by writing to:

Farmers' Newsletter Survey
USDA-ESCS, Room. 440 GHI
Washington, D.C. 20250

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The 60-second news features change each weekday at 4:00 p.m., Washington, D.C. time. The following features are scheduled through the end of February:

Feb. 13	Cattle on Feed
Feb. 14	Cattle on Feed Analysis
Feb. 15,16,17,18	Cotton Situation
Feb. 19	Exports
Feb. 20	Retail Meat Prices
Feb. 21	Red Meat Production
Feb. 22,23,24	Farm Labor
Feb. 25	Eggs, Chickens, & Turkeys
Feb. 26	Wool Situation
Feb. 27	Farm News Special
Feb. 28	Poultry Situation
Feb. 29	Farmers' Prices

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